

Message Text

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70

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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FM AMEMBASSY QUITO

TO SECSTATE WASHDC 5006

INFO AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: ECON EC

SUBJECT: 1974 BUDGET DEFICIT ANNOUNCED

1. FINMIN MONCAYO ANNOUNCED A 1974 BUDGET DEFICIT OF 555 MILLION SUCRES (\$22.3 MILLION) INCLUDING DEBT AMORTIZATION OF 411 SUCRES, BUT HE EMPHASIZED THAT TOTAL GOVERNMENT SPENDING FOR 1974 REGISTERED A SURPLUS OF 1.3 BILLION SUCRES. USING ITS OWN METHODS, THE IMF ESTIMATES THAT THE CENTRAL GOVERNMENT BUDGET RAN A DEFICIT OF 276 MILLION SUCRES; INCLUDING FONADE, THE LARGEST INDIVIDUAL ACCOUNT, TOTAL GOVERNMENT SPENDING REGISTERED A SURPLUS OF 752 MILLION SUCRES. THE ANNOUNCEMENT OF THE 1974 BUDGET DEFICIT RECEIVED FRONT PAGE COVERAGE IN THREE MAJOR NEWSPAPERS. THE FINMIN STATED THE DEFICIT WAS DUE TO A DECLINE OF 2 BILLION SUCRES (\$80 MILLION) IN PETROLEUM REVENUES SINCE JUNE 1974. THE GOVERNMENT, HE ADDED, HAD UNFORESEEN EXPENDITURES OF WAGES AND BENEFITS FOR PUBLIC EMPLOYEES. THE CENTRAL GOVERNMENT BUDGET WAS ALSO FORCED TO ABSORB INCREASED FINANCING FOR ECUATORIANA DE AVIACION. MONCAYO INSISTED THAT THE BUDGET DEFICIT FOR 1974 WAS WITHIN THE RANGE OF GOOD FINANCIAL MANAGEMENT AND CRITICALLY ALLUDED TO A COFIEC REPORT THAT ESTIMATED THAT THE 1974 BUDGET DEFICIT

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WOULD TOP A BILLION SUCRES.

2. MONCAYO APPARENTLY ALSO FELT COMPELLED TO ANSWER CRITICISM OF 1975 BUDGET EXPENDITURES. GUAYAQUIL DAILY, EL TELEGRAFO, PUBLISHED AN ARTICLE MARCH 29 REVIEWING THE DECREASE IN PETROLEUM EXPORTS FROM A TOTAL LEVEL OF 71,125 MILLION BARRELS IN 1973 TO 59,230 MILLION BARRELS IN 1974 AND PREDICTING A FURTHER DECLINE IN 1975. THE ARTICLE STATED THAT REVENUES WOULD NOT REACH MORE THAN 13 OR 14 BILLION SUCRES (BUDGET REVENUES ARE PROJECTED AT 15.7 BILLION SUCRES). IT EXPRESSED THE LEGITIMATE FEAR THAT THE PRIVATE SECTOR WOULD BE DRAINED TO SUPPORT THE "VORACIOUS BUREAUCRACY" IN THE ABSENCE OF PETROLEUM INCOME. HE LAMBASTED EXTENSIVE TRAVEL OF BUREAUCRATS AS OFFICIAL TOURISM. THE ARTICLE ALSO ADVOCATED AN END TO THE GOE'S POLICY OF IMPORT LIBERALIZATION DUE TO THE CONCURRENT FALL OFF IN FOREIGN EXCHANGE EARNINGS. MONCAYO REPLIED TO THESE CRITICISMS WITH HIS USUAL PREDICTIONS OF A SELECTIVE 1975 SPENDING POLICY TO DIRECT FUNDS TOWARD INFRASTRUCTURE PROJECTS.

3. COMMENT: TO DEMONSTRATE FISCAL RESPONSIBILITY, MONCAYO ANNOUNCED THAT THE FINAL 1974 BUDGET HAD REACHED A CODIFIED LEVEL OF 13.4 BILLION SUCRES. AS THE GOE REALIZED THE DECLINE IN PETROLEUM REVENUES, EXPENDITURES (EXCLUDING AMORTIZATION) WERE SELECTIVELY CUT TO 11.4 BILLION SURCES. MONCAYO'S INSISTENCE THAT THE DEFICIT FELL WITHIN THE RANGE OF GOOD FINANCIAL MANAGEMENT AND HIS JUGGLING OF AMORTIZATION FIGURES TO MINIMIZE THE SIZE OF THE DEFICIT INDICATES A GROWING SENSITIVITY TO CRITICISM. THE 1975 BUDGET, UNLESS REVISED, WILL RUN A LARGER DEFICIT THAN THAT PREDICTED IN QUITO A-8 SINCE FIRST QUARTER PETROLEUM PRODUCTION WAS WAY BELOW PROJECTIONS, PARTLY, BUT NOT ONLY, BECAUSE OF A BREAK IN THE PIPELINE.
BREWSTER

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Disposition Date: 28 MAY 2004
Disposition Event:
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